

## **COLD CALLING ALERT**

It's known as "cold calling." For many businesses, including securities firms, cold calling serves as a legitimate way to reach potential customers. But sometimes serious trouble and losses often await you at the other end of the line. Dishonest securities salesmen (sometimes called brokers) may pressure you to buy a bad investment. Or the investment might be a scam.

Whether the calls are annoying, abusive, or downright crooked, you can stop cold callers. The law protects you by requiring colder callers to follow several rules. But you need to take steps to take advantage of these rules and to protect yourself.

This material tells you about your legal rights, how to deal with cold calls, how to stop them, and how to evaluate any investment opportunity that comes your way over the telephone.

### ***COLD CALLERS MUST FOLLOW THESE RULES***

When people from the securities industry call to sell you something, they must:

Call Only Between 8:00 am and 9:00pm...

These time restrictions do not apply if you are already a customer of the firm or you have given them permission to call you at other times. Cold callers may call you at work any time.

Say Who's Calling and Why...

Cold callers must promptly tell you:

- their name
- their firm's name, address, telephone number, and
- that the purpose of the call is to sell you an investment

Put You on Their "Do Not Call" List, If You Ask...

Every securities firm must keep a "do not call" list. If you want to stop sales calls from that firm, tell the caller to put your name and telephone number on the firm's "do not call" list. If anyone from that firm calls you again, get the caller's name and telephone number. Note the date and time of the call, and complain to the firm's compliance officer, the SEC, or your state's securities regulator.

You may get your telephone number on the FTC's National Do Not Call Registry, by dialing 1-888-382-1222) or visiting [www.donotcall.gov](http://www.donotcall.gov). According to the FTC, registration is effective for five years.

Treat You with Respect...

Cold callers cannot threaten, intimidate, or use obscene or profane language. They cannot tell you repeatedly to annoy, abuse, or harass you.

#### Get Your Written Approval before Taking Money Directly from Your Bank Account...

If you do decide to buy from a cold caller, do not give your checking or savings account numbers to the broker over the phone. Brokers must get your written permission – such as your signature on a check or an authorization form – before they can take money from your accounts.

#### Tell You the Truth...

People selling securities must tell you the truth. Brokers who lie to you about any important aspect of an investment opportunity violate federal and state securities laws.

### ***WHAT ARE SIGNS OF TROUBLE?***

Honest brokers use cold calling to find clients for the long term. They ask questions to understand your financial situation and investment goals before recommending that you buy anything. While you may find their cold calls annoying, honest brokers who follow the cold calling rules are acting within their rights.

Dishonest brokers use cold calling to find “quick hits.” Some set up “boiler rooms” where high pressure sales people use banks of telephones to call as many potential investors as possible. These strangers may charm or hound you to buy stocks in small unknown companies that are highly risky, or sometimes part of a scam.

### ***WATCH FOR THESE SIGNS:***

#### High Pressure Sales Tactics...

Aggressive cold callers speak from persuasive scripts that include retorts for every objection. As long as you stay on the phone, they will keep trying to sell. And they will not let you get a word in edgewise.

Be aware of brokers who pressure you to buy before you have a chance to think about and investigate the “opportunity.”

Watch out for brokers who tell you about a “once-in-a-lifetime” opportunity, especially when the caller bases the recommendation on “inside” or “confidential” information.

Do not fall for brokers who promise spectacular profits or “guaranteed” returns. If the deal sounds too good to be true, then it probably is.

Do not deal with brokers who refuse to send you written information about the investment.

#### The “Three-Call” Technique...

Some cold callers wait before turning up the heat. In their first call—the “warm-up” – they will try to build your trust by describing their firm’s past successes and the high quality of its research. The callers might ask permission to call again if an “exciting” deal comes along, but will not pressure you to buy.

In their second call – the “set-up” – they will whet your appetite, telling you about a fabulous deal they “think” they can get you into. In their third call – the “close” – they will urge you to “buy now” or miss out.

#### Bait and Switch...

Dishonest brokers lure new customers by encouraging them to purchase well-known, widely traded “blue chip” stocks. After you take the bait, they may pressure you to invest in small, unknown companies with little or no earnings. These stocks tend to be very risky and thinly traded, leaving more investors with losses than profits.

#### Paying Too Much...

Although they may not say so, dishonest brokers who push you to invest in a small, unknown company often work for firms that own large amounts of the stock. Their firm may have been involved in the company’s initial public offering. Or the firm may “make a market” in the stock – sometimes called a “house stock” – for its own account. If only one firm or small group of firms make a market in the stock, the price can be manipulated and may not reflect the true value of the company. Dishonest brokers often pump up the prices of their house stocks until they get rid of their own holdings at high prices. But when they stop promoting the stock, the price falls, and investors lose their money.

If you are not careful, you may pay too much for “house stocks.” Some dishonest brokers overcharge their customers by adding an undisclosed “mark-up” to the price the firm paid for the stock. Although it is illegal for brokers to charge excessive mark-ups, some

dishonest brokers mark up the prices of the stocks they sell by as much as 100% or more.

#### Finding It Hard To Sell...

Many investors find that once they buy a "house stock," they cannot get what they paid for it, even if they decide to sell right away. Or they find that their brokers simply will not sell the stock at all. Some firms follow "no net sales" policies where brokers cannot execute orders to sell "house stocks" unless they find a customer to buy an equal number of shares. Other firms discourage brokers from selling "house stocks" for their customers by offering low – or no – commissions on those sales.

Dishonest brokers often refuse to take—or return—phone calls from customers who want to sell.

These brokers will use high-pressure tactics to persuade you to keep the stock. Or they will simply refuse to sell it.

### ***WHAT CAN I DO?***

#### Report Abusive Cold Callers...

When cold callers use harassing, abusive sale tactics and lie to you about investment opportunities, they violate the cold calling rules and break federal and state securities laws. Do not let them off the hook! To complain about abusive callers, write down the name of the caller, the name of the firm, the date and time of the call or calls, what the caller said to you, and what you said to the caller. You can send your complaints either to the SEC or your state securities regulator:

#### **U.S. Securities and Exchange Commission**

Office of Investor Education and Assistance

MS 11-2

450 Fifth Street, NW

Washington D.C. 20549

Phone: 202/942-7040

FAX: 202/942-9634

E-Mail: [help@sec.gov](mailto:help@sec.gov)

#### **Arizona Corporation Commission-Securities Division**

1300 W. Washington, Third Floor

Phoenix, AZ 85007-2996

Phone: 602-542-4242

Toll-free: 1-866-VERIFY-9 (in-state)

FAX: 602/594-7470

E-Mail: [info@azcc.gov](mailto:info@azcc.gov)

You can also contact the North American Securities Administrators Association (NASAA) for securities regulators.

Toll-Free: 1-888-846-2722

Web: <http://www.nasaa.org>

#### Tell Bad Cold Callers Not To Call Again...

Some salespeople just don't get it. No matter how many times you've told them "no thanks," they keep calling. If cold callers annoy you, stop them before they start their sales pitch. Tell the caller to put you of the firm's "do not call" list. If anyone from the firm calls you again, complain to the firm's compliance officer, the SEC, and your state's securities regulator.

#### Don't Warm Up To Bad Cold Callers...

Cold callers often try to "warm up" potential customers with flattery or friendship. They might try to put you off guard by chatting about your hometown or the local sports team. Or they might suggest they've spoken with you before. Don't fall for their tactics.

And don't feel compelled to be polite or stay on the line. You don't have to listen if you don't want to, and you don't have to tell cold callers about yourself or your finances. Say "no thanks" or "I'm not interested" and hang up. Don't wait for the caller to end the call. YOU are in control and can hang up any time. If you get a fraudulent sales pitch, be sure to take notes and report the caller.

### ***WHAT IF I WANT TO INVEST?***

Never buy an investment based simply on a telephone sales pitch. A wise investor will always slow down and ask questions, get written information about the investment, and investigate the background of the firm and broker. Take notes so you have a record of what the broker told you, in case you have a dispute later. Before making a final decision and handing over your hard-earned money, take the time to investigate. Follow these steps:

#### Call Your Securities Regulator and Ask...

- Is the investment registered?
- Is the broker licensed to do business in the state?
- Have you received any complaints about the broker or the broker's firm?  
Does either have a disciplinary history?
- Have you received any complaints about the stock, the company, or the company's managers?

The state regulator will pull the information from a national computer system, the Central Registration Depository (CRD). You can also obtain a partial CRD disciplinary history of the broker and the firm by contacting the Financial Industry Regulatory Authority at 800/289-9999 or visit the website at <http://www.finra.org>.

#### Ask Your Broker These Questions...

- Is the investment registered with the SEC and the state securities agency where I live?
- How long has the company been in business? Is it making money? If so, how? What is its product or service? Have the people who are managing this company ever made money for investors in the past? Will you send me the latest reports that have been filed on the company? How can I get more information about this investment?
- Where does the stock trade? How can I get information about the stock's trading prices? How easily can I sell? What price would I get if I decide to sell immediately?
- How does this match my investment objectives? What is the risk that I could lose the money I invest?
- What are the costs to buy, hold and sell this investment?

#### ***DO YOUR OWN RESEARCH...***

Get as much written information about the investment as you can. Ask for a prospectus, annual report, offering circular, and financial statements. Your local library may have resources that provide additional information about the company such as lawsuits, liens, or recent credit reports. Refer to databases, Standard and Poor, and the SEC website [www.sec.gov](http://www.sec.gov) for ratings, financial reports, and history. Compare the written information to what you have been told and given. Watch out if you are told that no written information about the company is available. If that happens, call your state regulator immediately. Be careful of written information as well. High glossed brochures and pamphlets may be false and meaningless. Use your own data to verify.

#### Get A Second Opinion...

Talk to a trusted financial advisor, attorney or accountant. Consider calling another firm for a second opinion.

#### Monitor Your Investment...

After you have invested, watch your investment closely. Make sure your broker sends you account statements and written confirmation of

all trades and activity. Read these documents carefully to make sure they are correct. Be alert for any transactions you did not authorize.

**Complain Promptly...**

Contact your broker's supervisor or the firm's compliance officer. If that does not resolve the problem, complain to the SEC or your state regulator. Often complaints from investors alert the regulators of wrongdoing in the industry and are the first step in stopping a bad broker or firm. By complaining early, you will have a better chance of getting your money back and protecting your legal rights.

*Information provided by a Securities and Exchange Commission and a NASAA publication.*